Pension Fund Cost Transparency

A how-to guide for trade unions

CWC committee on workers' capital

Contents

The Global Unions Committee on Workers' Capital (CWC) is an international labour union network for dialogue and action on the responsible investment of workers' retirement savings. It is a joint initiative of the International Trade Union Confederation (ITUC), the Global Unions Federation (GUFs), and the Trade Union Advisory Committee to the OECD (TUAC).

Disclaimer
This guide does not offer legal or financial advice on pension fund investing or investment theory. Pension fund investment strategy must be developed by trustees in association with their advisors and in consultation with their members. The guide is for educational purposes to explain what costs pension funds incur during the investment process and why full transparency of these costs can help improve investment returns; and what other countries and unions have done to improve the transparency of costs for their pension system.

Foreword

The capital of workers around the world is invested in a complex chain of investment intermediaries. We hope that this guide empowers trade unions and pension trustees around the world to seek better transparency on the fees paid when the retirement savings of workers are invested.

The Global Unions Committee on Workers' Capital is encouraged to see more efforts to legislate or provide regulatory guidance so that pension trustees can have access to verifiable, reliable and standardised information on the fees they pay to asset managers and others who provide services to pension funds.

It is troubling to think that two workers in a similar industry with similar wages might find themselves in vastly different situations at retirement because of opacity around fees and the impact of fees on the net returns of their pension funds. This is why cost transparency matters and why a standardised cost collection template is necessary.

Cost transparency is a tool to safeguard the capital of workers' capital that they have worked so hard to earn and have every right to see when they retire! We have taken examples from around the world where trade unions have placed cost transparency on the bargaining table with their government, regulators and employers.

We hope this offers a practical guide for understanding this key issue and devising a solution to take forward in your country.

In solidarity,

Sharan Burrows
General secretary, the International Trade Union Confederation

Executive summary

- Pension funds incur costs and fees to administer retirement savings and manage investments more than 90% of the total costs paid by pension funds are linked to asset management. Those costs are not always transparent or understood.

- Incremental reductions in costs, which are facilitated by cost transparency, can have a material upward impact on the performance of pension funds and the ability to deliver retirement payouts.

- In recent years, unions, pension federations and regulators have increasingly recognised the importance of providing comparable, timely and verifiable data on costs and fees that are paid for by pension funds.

- This guide provides a case study of four jurisdictions which account for 77% of global investments by pension funds: Australia, the Netherlands, the UK and the USA.

– In the Netherlands, pension funds must report to members on administration, asset management and transaction costs. Funds must then submit information to the regulator.

– Australian superannuation (pension) funds are required by the regulator to disclose investment fees and costs to fund members and potential members. The funds themselves have adopted a voluntary cost mapping table for investment costs.

– In the UK, defined contribution funds must report costs to scheme members. Municipal funds are collecting data for public markets and private markets later in 2018. The Financial Conduct Authority will publish a cost template for all assets in September 2018 for use on a voluntary basis.

– In the USA, private sector pension plans are subject to federal regulation under ERISA and the Internal Revenue Code, whereas public sector pension plans are subject to state law. Some states have adopted fee collection requirements for public pension plan investments in private market assets.

- The CWC encourages unions and/or trustees who are based in countries or jurisdictions that do not have cost transparency frameworks to do the following:

- Request that regulators adopt a standardised cost collection template for pension funds to collect cost data across asset classes;
- Request that regulators mandate the disclosure of information of the main headline costs – pension management, investment management and performance along with transaction fees – in fund annual reports to increase transparency for pension beneficiaries;
- Encourage the collection of information on costs and fees by a coordinating entity to facilitate the comparison of data on costs and performance across a pension system.

- At an individual fund level, costs can be collected, for each investment mandate or service, and analysed. Trustees can then market test those in order to seek lower fees from asset managers and other providers.
- The CWC working group on cost transparency can provide tips and guidance to any party interested in undertaking this exercise.

Introduction

Around the world, trade unions collectively bargain and appoint trustees for private and public sector pension plans. The pension funds have now amassed assets valued at USD 39.5 trillion.[1] The financial returns on these assets provide revenue to help pay our pension benefits.

Pension plans, which came into existence as a result of trade union bargaining in the workplace, should deliver a living wage in retirement. Yet, many trade unions and pension beneficiaries do not have a detailed grasp of the impact of fees, costs and charges in the investment process and the impact that those have on their retirement savings payout.

Since the global financial crisis in 2008/9, greater attention has been given to the banking and finance system by government and regulators. This has included a call for improved transparency of the costs borne by asset owners, such as pension plans.

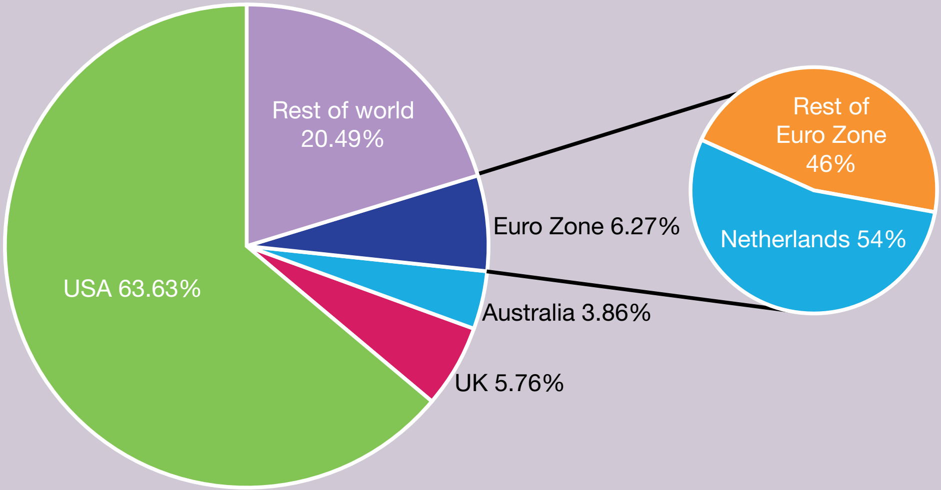
The main message of this briefing is "What gets measured gets managed." It has been written to assist trade unions in countries that do not have a legal framework that ensures all costs incurred by their pension funds in the investment process are transparent, reported, accounted for, measured and managed for the benefit of their pension plans and members.

Our analysis focuses on four countries which account for 77% of global investments by pension funds: Australia (3.9%), the Netherlands (3.3%), the United Kingdom (5.7%), and the USA (63.6%). We also consider the role of regulation coming from the European Commission: pension assets in Euro Zone countries account for 6.2% of global pension assets.[2]

[1] http://www.oecd.org/finance/private-pensions/pensionmarketsinfocus.htm

[2] http://www.oecd.org/pensions/private-pensions/Pension-Markets-in-Focus-2017.xlsx , Table A.2

Chart 1:
Global share of investments of private pension assets by key countries (2016)



Source: OECD Pension Markets in Focus, 2017

As of July 2018, the Dutch regulation which requires pension funds to submit standard data on fees and costs, which is aggregated and published by the Dutch National Bank, remains unique.

In Australia, defined contribution superannuation (pension) funds are required to disclose specific information on investment fees and costs to members but this information is not collected centrally by the regulatory authority. A fee and cost mapping table was produced by an Industry Working Group in response to Regulatory Guide 97 (RG97), which mandates fees and cost disclosure.

In the UK, the Financial Conduct Authority is expected to publish a voluntary cost disclosure template for pension funds in autumn 2018. Initially, there will be no mandatory submission of data to government or regulators but this will be reviewed over time by the Financial Conduct Authority.[3] Municipal funds are collecting data for public market assets and will adopt the FCA template in full when published.

In the USA, private sector pension plans are subject to federal regulation under ERISA and the Internal Revenue Code, whereas public sector pension public plans are subject to state law. Some states have introduced legislation requiring pension funds to disclose fee data. In 2016, the Institutional Limited Partners Association (ILPA) – a private trade group – introduced a fee reporting template that details fees, expenses and carried interest, but adoption of this template is voluntary.

[3] https://www.moneymarketing.co.uk/fca-working-group-recommends-five-voluntary-cost-disclosure-templates/

How to use this guide

This guide will assist trade unions who operate in countries, states or regions that do not benefit from cost transparency. Its intention is to inform unions at the sub-national, national and global levels to understand these costs so that they can raise the issue with governments and other such institutions. It provides an insight to these issues and highlights the work undertaken by unions in this field and by regulators in the USA, Australia, the Netherlands and the United Kingdom.

This guide will provide you with a basic understanding of where costs lie in the investment cycle and how they affect pension outcomes. Costs vary according to asset class and the style of investing, as well as whether there is much trading of the asset. They can often present themselves differently in Defined Contribution (DC) plans compared to Defined Benefit (DB) plans.

We hope that by reading this guide you will feel confident that whilst some of these cost transparency data points may be difficult to obtain for you at present, they can be better understood. And by doing so these costs can be controlled and/or reduced, thereby potentially improving the net financial returns and delivering better outcomes for plan members and their sponsoring employers.

Pension plans across countries often share the same investment managers, custodian banks and advisors. Therefore, we have an ambition to set a common agenda for the disclosure and reporting of costs across the world to ensure that our pension systems work for our members.

This is of importance as we witness the decline in DB plans, the wage in retirement, and the replacement system of defined contribution where the individual worker's fund bears all of the investment risks and costs, which has a material impact on their retirement funds.

We seek to address these key issues and reignite the long history of struggle to provide workers with a living wage in retirement.

Why is transparency of pension fund costs and fees important?

There is no purchasing decision that we as consumers make without knowing the costs, including an indicator of future or ongoing costs for large capital items like fridges or cars. Moreover, a car or a fridge will offer an indicator of efficiency (allowing an assessment of future costs) in their energy or fuel efficiency ratings.

In countries outside of Australia and the Netherlands, only a fraction of the costs is ever voluntarily reported to pension fund trustees by the commercial companies, such as the fund managers or custodian banks that manage pension fund assets.

Costs are incurred when pension funds hire commercial asset managers as well as through the process of buying and selling assets. But rarely are they known in full.

Cost levels should always be discussed or judged in relation to the return on investment by each asset class and by the investment style used. Indeed, ‘Pennywise and pound foolish’ and ‘no pain no gain’ are classic sayings that indicate that a judgment based purely on curtailing costs is inadequate. This is specifically the case with asset management. Thus, encouraging overall cost reduction is not our main goal. Rather, we hope to promote the analysis of costs for each asset invested to ensure the full return or loss on that investment can be understood and addressed.

Nonetheless, transparency around costs can have a significant impact on the ability of funds to pay out retirement savings. A study by the Netherlands Authority for the Financial Markets found that a reduction in costs of 0.25% would result in a 7.5% increase in collective pension assets over 40 years.[4]

Thus, understanding the difference between the investment returns before costs are applied and after is crucial. This is known as gross returns and net returns.

However, many costs are deducted by asset managers from the returns (or losses) they report to pension funds. Pension funds will report “asset managers” fees but, with the exception of Australia and the Netherlands as of August 2018, they do not report other associated costs, such as the costs of buying and selling assets, performance fees and many others.

Lack of cost disclosure means that their impact on investment returns cannot be understood. These costs can become an unnecessary burden on investment performance and reduce the money available to pay pensions. Evidence suggests

[4] https://www.afm.nl/nl-nl/nieuws/2011/april/kosten-pensioenfondsen

that cost opacity in countries and jurisdictions that do not have an effective transparency framework are indeed affecting the level of retirement savings payouts.

In 2017, the UK's Financial Conduct Authority reported the following findings in its Asset Management Market Study:

Price competition is not working as effectively as it could be: there is weak price competition in several areas of the asset management industry, particularly in retail active asset management services. This weak competition is coupled with high levels of profitability. Average profit margins for sampled firms were 36%.[5]

Actively managed and passively managed funds did not outperform their own benchmarks after fees: These findings apply to both retail and institutional investors. There is some evidence of a negative relationship between net returns and charges, suggesting that when choosing between active funds investors paying higher prices for funds, on average, achieve worse performance.[6]

Lack of clarity around objectives charges: there is more than GBP 109bn in 'active' funds that closely mirror the market (also known as closet indexing) and that are significantly more expensive than passive funds.[7]

This means that pension funds may not be operating as efficiently as they could, placing economic strain on employer sponsors and plan members. Often plan sponsors will cite the high costs of their DB benefits without fully understanding the cost base of the fund. They seek to reduce benefits or increase member contributions as they assume that all the costs of investing are known.

With understanding of costs remaining limited amongst many market participants, greater educational efforts are needed. In the current environment of volatile markets and low interest rates, all avenues must be explored to increase plans' funding levels and create better outcomes for members.

Put simply, costs can and do have a significant impact on investment returns; without controlling them the efficiency of the pension fund – both DB and DC – cannot be optimised.

[5] https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf, p.4
[6] Ibid, p.5
[7] Ibid, p.5

An overview of pension fund management and investment costs

Costs are not new. Individuals are familiar with being charged a fee for a bank account. For looking after your money, reporting your balance to you and facilitating your day-to-day transactions, the bank levies a charge or reduces the rate of return they offer on your account.

Pension plans are no different they incur costs. If you want to establish the total cost for the production (TCP) of the pension payments, then you must look further than the headline charges. You must understand the explicit and implicit costs, as all these costs added together are the sum of the TCP.

These costs could occur for many reasons that are not necessarily harmful. For example, a trading decision (which incurs a cost) could be taken to benefit an investor by finding a security with a return that will offset the costs. Similarly a cost could be incurred to accommodate an alteration of investment strategy made by an investment committee.

Most of the costs and charges discussed here occur when investing, behind the scenes, and are often misunderstood, unknown or unmeasured. This has led to a sense of costs being a mysterious, complex topic.

By understanding the processes and players that comprise this cycle, we can identify how the “total cost of production” of a pension fund is incurred and how we might judge value. This makes the assessment of the plan’s investment strategy more conclusive, which in turn can lead to decisions that improve the financial strength of the fund.

INFORMATION BOX 1

Impact of costs on retirement benefits: the difference between defined benefit and defined contribution plans

In **defined benefit** (DB) plans, the sponsoring employer bears most of the responsibility of ensuring pensions are paid, and the costs of running the plan are shared collectively, regardless of the returns made on the invested contributions. In contrast, for DC plans, the members bear the risks as there is no promised level of payment.

DB plans are, therefore, potentially less attractive to employers than providing a DC occupational or group personal pension. However DC plans, while popular with employers due to the lower costs they pay, will not provide a comparable DB pension. DC pensions will result in lower incomes in retirement.

In a **defined contribution** (DC) plan, all the risks, such as a fall in the value of a stock market, and costs of investing are imposed upon the member's fund. Costs will vary across asset classes. However, if they are not contained, they will reduce net retirement income.

Where and how do funds incur costs?

One approach to coming up with the annual TCP is to differentiate among the following three categories: **pension management costs** that are known and reported, such as the cost of administration; **investment management costs,** which include management and performance fees; and **transaction costs,** which include the costs of buying and selling assets. An important part of investment management and transaction costs – approximately 85% at large Dutch pension funds – are not reported in financial statements (GAAP and IFRS). Financial statements only include directly invoiced asset management fees. As a result, there tends to be more opacity around these costs unless there is a form of disclosure required by pension funds or regulators. Comprehensive information on the items that compose costs are provided in appendix A.

Information box 2 in this section of the report highlights that investment management costs account for more than 90 percent of total costs at Dutch pension funds ABP and PFZW. This is a powerful argument in favour of cost transparency.

Pension management costs

Pension management costs are those associated with the running of the legal entity that manages the pension plan. In most cases the entity is a Trust, but it may include other structures, particularly in the public sector.

These costs cover purely the administrative tasks to keep the plan operational. Those costs include executive and committee costs incurred as part of the day-to-day operations, costs associated with the monitoring or processing of member accounts or communications, payments to professional services providers (e.g.: lawyers, accountants, actuaries), regulatory compliance costs and rent. For more information, see appendix A.

Most administration costs are easily understood, mainly because the costs of running a plan are no different than the costs that would be needed to run a simple organisation in the public sector or in commerce.

Investment management costs

Most of the confusion around pension costs is associated with the area of investment management costs that can amount to more than 90% of overall total production costs. There are generally several providers at various levels of the investment chain contributing specific skill sets.

Five aspects of investment policy are the chief determinants of investment management costs:

Investment asset mix: The greater the liquidity of an investment product, the greater the number of parties trading on the market in that product, and the more efficiently and transparently price formation takes place. Illiquid investments, such as infrastructure funds and hedge funds, are harder to value transparently. Costs of investing in illiquid assets may be higher than for investing in equities or bonds but the trade-off is higher potential long term returns for a given amount of risk, which is an important consideration for DC funds.

The degree of active (trading) or passive (using a fixed index) management of equities: Active management is more costly than passive management, which is based on tracking the market index.

The degree of internal or external fund managers: Asset management can be implemented either by the pension fund itself (internal management, usually a not for profit entity) or by a commercial fund manager (external management). Internal management can be less costly provided the fund has the scale to hire internally.

Direct holding of the asset or indirect investment (investing in an asset pool): A pension fund may hold investment titles in segregated or pooled accounts. This latter can offer economies of scale and help to contain costs. On the other hand, the party offering the fund may charge a fee for fund management. 'Fund of funds' generally have higher fees because of management fees being charged by all managed funds.

Scale: Generally, the larger the asset fund, the more efficient it becomes because it has the market power to negotiate better prices with asset managers

Apart from the fees actually paid to asset management firms, other actors will be compensated by pension plans in the elaboration and implementation of an investment strategy. These actors include investment consultants and custodian banks.

The following describes the main types of investment management costs:

Asset management fees: These relate purely to the costs that are incurred from the use of asset managers. They make up more than 40% of total production costs at Dutch Pension Funds ABP and PFZW – the largest cost.

A common example is the "2 and 20" charge structure often used by hedge funds or private equity, whereby an investor pays a fixed fee of 2% of the assets

invested and then returns 20% of the profits earned on the investment. For example if a USD 100m investment grows to USD 120m over a year (before management fees), then the investment might pay USD 2m in fixed fees (2% of the original AuM). This would be the asset management fee.

Performance fees: Performance fees are most commonly found in active management strategies and alternative investment classes. They will be awarded once certain conditions are met by the asset manager – as stipulated for in the contract between an asset owner and manager.

Going back to the "2 and 20" structure, the performance fee would be the variable component. If a USD 100m investment grows to USD 120m over a year (before management fees), then the investment might pay USD 4m in performance fees (20% of the 120-100 = USD 20m increase).

Although the structures may vary, similar models are often found and are meant to act as a way of aligning interests and incentivising managers to obtain investment results.

Transaction costs

Transaction costs are incurred in the process of buying, selling, lending or borrowing financial instruments. Each financial instrument will have some costs that are particular to investing in that area. Generally, the cost will be a small proportion of the nominal traded amount, a fixed percentage of every trade. Although the percentage will remain relatively consistent, the cumulative amount will increase as there is a greater amount of portfolio turnover (trading activity).

Often, these costs will be subtracted prior to the release of the gross return. For this reason, they are often deemed to be hidden. Transaction costs have generally not been disclosed to pension funds and unless compelled to do so, many asset managers are reticent to provide the full details. Nonetheless, they account for approximately 15% of total production costs at Dutch funds ABP and PFZW.

Examples of the costs arising from the purchase and sale of investments include brokers' fees for processing transactions, the difference between the bid price and ask price with respect to the broker's various costs and profit margins (spread costs), registration fees to processing and registering the transactions in the asset manager's administration, and the commission paid for the execution of a transaction

There is a description in the range of the costs involved in the Total Cost of Production for both DB and DC plans in appendix A.

INFORMATION BOX 2

Breakdown of costs at Dutch pension funds ABP and PFZW (2017)

The case for enhanced cost transparency in the investment chain is amplified when we understand where those costs lie. A general summary along with a description of the breakdown of costs at two large Dutch pension funds, ABP and PFZW, is provided in Box 2.

Annual costs of pension administration, investment management and transactions account for more than EUR 3.1bn at ABP and EUR 1.2bn at PZFW. The breakdown of those costs is similar at both funds: more than 95% of the Total Cost of Production at ABP come from investment management (management and performance fees) and transaction costs; the similar figure is 91% at PFZW.

These figures provide a clear illustration of the material long term risks associated with cost opacity. Pension trustees who do not have access to a clear breakdown of implicit and explicit costs cannot be expected to effectively manage those charges or know that they are securing the best outcome for current and future pension beneficiaries.

ABP[8]

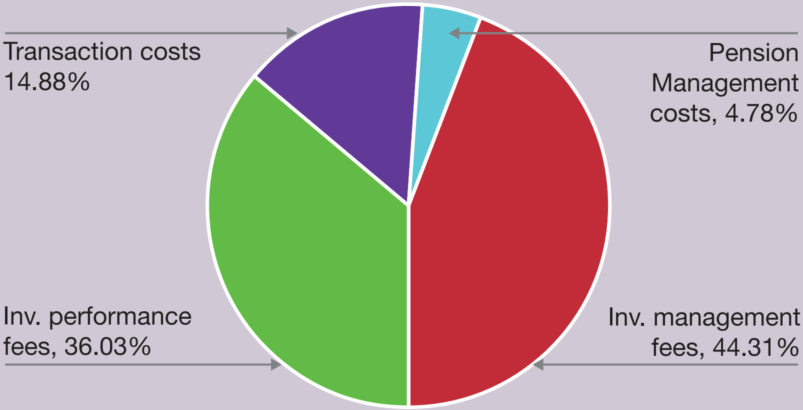
Assets: EUR 409bn (80% of assets are managed internally, by APG[9])

Asset classes: fixed income (36.8%), public equities (35.3%), alternative investments (16.5%), real estate (9.8%)

Participants: 2.9 million members

Annual Total Production Cost: EUR 3,138m[10]

Total Production Costs Disagregated (ABP)



PFZW[11]

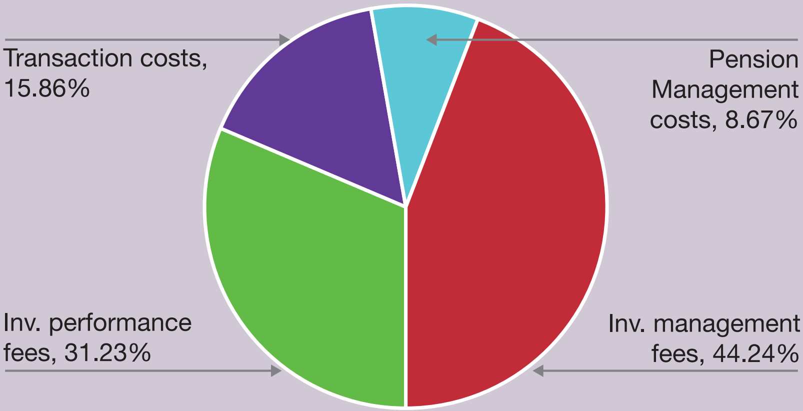
Assets: EUR 197bn

Asset classes: securities (51.4%)[12], credit (13.1%), raw materials (5.1%), fixed income (30.4%)

Participants: 2.6 million members

Annual Total Production Cost: EUR 1,223m[13]

Total Production Costs Disagregated (PFZW)



[8] http://jaarverslag.abp.nl/docs/ABP_JV_2017/index.php?nr=551&r_code=ABP_JV_2017

[9] https://www.workerscapital.org/IMG/pdf/cwc_trustee_jmeijerv_final_2_28_17.pdf

[10] The sum of administration costs, management fees, performance fees and transaction costs at ABP in 2017, Source: http://jaarverslag.abp.nl/docs/ABP_JV_2017/index.php?nr=23&r_code=ABP_JV_2017

[11] https://www.jaarverslagpfzw.nl/jaarverslag-2017/verslagvanhetbestuur/iboekjaar2/beleggingen/s1035/a1126_default

[12] Includes public equities, private equity, real estate, infrastructure and insurance

[13] The sum of administration costs, management fees, performance fees and transaction costs at PFZW in 2017, Source: https://www.jaarverslagpfzw.nl/FbContent.ashx/pub_1000/Downloads/PFZW_jaarverslag_2017.pdf

Recommendations to achieve cost and fee transparency

The cost of running a pension fund is increasingly an essential governance tool for trustees. Yet until now, cost transparency has remained a challenge with few trustees or governments having an accurate idea of what these costs specifically entail.

At its conference in Berlin in 2017, the CWC established a working group on costs and charges incurred by pension plans during the investing process. The group includes union officers and pension plan trustees.

The CWC recommends that the following objectives be pursued by trade unions and trustees to achieve cost transparency for pension plans:

- Request that regulators adopt a standardised cost collection template for pension funds to collect cost data across asset classes;
- Request that regulators mandate the disclosure of information of the main headline costs – pension management, investment management and performance along with transaction fees – in fund annual reports to increase transparency for pension beneficiaries;
- Encourage the collection of information on costs and fees by a coordinating entity to facilitate the comparison of data on costs and performance across a pension system.

In parallel to the three objectives to obtain cost transparency, the following objective should be pursued to improve the control of costs at pension funds:

- Pooling the assets of smaller funds provides added market power to negotiate costs with asset managers or to bring in asset management roles in house.

Tips to achieve cost transparency for pension funds in your jurisdiction/country

- Seek advice from the CWC working group on cost transparency on what resources are available to begin the journey;
- Use this guide and the evidence it offers to raise the question of costs at the bargaining table or with union sponsored trustees;
- Encourage individual funds to begin to identify costs throughout the investment chain, particularly performance fees and transaction costs;
- Use a collection system from any of the countries (e.g.: Australia, Netherlands) that have developed one so far;
- Consider raising the demand for a transparency exercise at a strategic fund in your realm of influence – it could be the staff fund of your union;
- Consider any consumer protection legislation for financial services products that already offer a remedy route to add to the pressure for new legislation;
- Gather unions, employers and civil society organizations under an umbrella of cost transparency;
- Contact sympathetic journalists;
- Seek radio or TV programmes that expose the issues of cost transparency;
- Link with any academics that can help;
- Lobby your state, regional or national government for cost transparency for your pension system – using the evidence in this guide and the country experiences we set out below;
- If a pension fund can achieve transparency alone, as many have done, then this data should be used to market test other asset managers. This usually results in managers offering a lower price, or it allows the pension fund to better assess risk/return of active management in relation to passive (index) investment products.

The road to cost and fee transparency: country reports

This section of the guide reports on the road to cost transparency in Australia, the Netherlands, the USA, and the UK. It includes some commentary on measures adopted by the European Union. The following table summarises these reforms in six countries and the European Union.

Australia: new fee disclosure guidelines applicable to superannuation funds

Australia's compulsory superannuation is a DC system that requires a statutory contribution to a superannuation fund. It is based on a percentage of an employee's ordinary time earnings, which is currently 9.5%, for employees earning more than AUD 450 per month.

The country legislated universal compulsory employer superannuation contributions in 1992, after Australian unions successfully bargained for the payment of superannuation contributions equal to 3% of ordinary earnings into 'industry funds', which were established across industries and occupations in the 1980s by unions.

In Australia there are three main categories of superannuation funds: 1) profit-for-member funds that include the industry funds, as well as corporate funds and public-sector funds; 2) retail for-profit-funds; and 3) self-managed superannuation funds (SMSFs) with a maximum of 5 members. SMSFs are out of the scope of this paper as they are largely family funds.

Of the AUD 2.5 trillion in superannuation assets in Australia, around 30% of funds under management are in retail funds, 40% in profit-for-member funds, and 30% in SMSFs. Australian superannuation funds are not pension funds per se, as members are not required to purchase a pension with the funds which have accumulated in their name, although the funds may have pension offerings.

Many funds offer members a choice of different investment options within the fund, based on risk factors, or types of assets, such as equities, property, fixed interest and cash.

For example, Australian Super, Australia's largest industry superannuation fund with over AUD 125 billion funds under management and more than 200,000 members, offers six pre-mixed investment options, a DIY option and a member-direct option where members can choose to invest directly in Australian equities, exchange traded funds (ETFs) or term deposits.

Under the equal representation model in Australia, employers or employer associations, and unions or a peak body of unions – for example the Australian Council of Trade Unions (ACTU) – nominate equal numbers of trustee directors to the boards of profit-to-members superannuation funds, the majority of which are industry funds.

The equal representation model does not apply to retail for-profit funds.

Australian federal legislators and regulators are the most important actors in the regulation of superannuation funds.

The regulators include the Australian Securities & Investment Commission (ASIC) and the Australian Prudential Regulation Agency (APRA).

Legislative or regulatory requirements around fee disclosure

Superannuation entities are regulated by the *Superannuation Industry (Supervision) Act 1993.* Under the legislation, trustees of funds are required to publish information about the fund's portfolio holdings, key information about investment choice products, and transparency information including executive and trustee remuneration, the current trust deed, governing rules, product disclosure statements (PDSs), and annual reports.

Funds have been required to disclose fees since 2005. In, 2013 funds were required by ASIC to disclose indirect investment costs as well as direct costs, to fund members and consumers.

In November 2015, ASIC released an updated Regulatory Guide 97: Disclosing fees and costs in Product Disclosure Statements and periodic statements (RG 97), which requires funds to improve their fees and cost disclosure and improve transparency and consistency in reporting, thereby improving comparability across funds. RG97 is aimed at the disclosure of all fees and costs paid to third parties to generate the investment return, fees paid to product issuers through investment management fees and performance fees, as well as the embedded costs of any internal investment management not charged as an investment fee.

The purpose of the changes was to provide clarity and promote greater accuracy and consistency in fees and costs disclosures by superannuation funds.

Included in the list of fees and costs that now must be disclosed, in addition to those noted above, are the operational costs (including custody and administration costs, legal fees, directors fees and regulatory and compliance costs not included in management fees) and transaction costs (including brokerage costs, buy/sell spreads, stamp duty and other fees that are not included in management fees or operational costs), foreign exchange costs, over-the-counter (OTC) derivatives costs, leverage/borrowing costs and securities lending costs.

The same level of disclosure applies to direct investment managers, underlying investment managers and in-house investment management, including any interposed vehicles, on a full look-through basis.

Voluntary initiatives around fee disclosure

The RG97 Industry Working Group comprising representatives of the profit-for-member and retail funds developed a voluntary Guidance to investment cost disclosure, including a cost disclosure template.[14] There is a separate template for private equity.

The Working Group was established with the encouragement of ASIC and participants include representatives across all sectors of the Australian financial services industry, including providers of direct investments, retail and industry superannuation funds and peak industry bodies.

Impact of regulation, legislation or voluntary initiatives on cost transparency

The effect of the revised RG 97 on fee disclosure by superannuation funds has been that disclosed investment fees have increased by upwards of 100 basis points or more depending on the fund and the investment option, as some indirect investment costs had not previously been captured in the calculation of fees. The average increase across MySuper products, (the default plan for employees who do not actively chose an investment option), was 23 basis points.[15]

The new regulation has not had an impact on net returns as these costs were previously included in administration (as opposed to investment) fees and costs. Nonetheless, fund members will see an increase in reported investment fees and costs despite being no worse off.

On 1 November 2017, in response to feedback from the superannuation and managed investments industry, ASIC commissioned an external review of the fee and costs disclosures required under RG97. The aim of the review was to ensure that it is meeting best practice in terms of achieving greater transparency for consumers.

The report was released on 24 July 2018. As well as making recommendations around fee disclosure in Australia, it includes a chapter on international trends and precedents regarding fee disclosure, including separate chapters on the UK, EU, the Netherlands, US, Hong Kong and New Zealand, and other countries.[16]

The report recommendations include ASIC work with funds to improve consistency in the way that fee information is reported and fee disclosure templates. There are also technical recommendations about how particular fees should be calculated and reported.

The report recommends that there be consistency in reporting of fees by superannuation funds and managed investment schemes, and greater disclosure of fees of platform products.[17]

14 http://www.aist.asn.au/policy/rg97-industry-guidance.aspx

15 https://investmentmagazine.com.au/2017/10/full-disclosure-the-dawn-of-the-rg-97-era/

16 http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-581-review-of-asic-regulatory-guide-97-disclosing-fees-and-costs-in-pdss-and-periodic-statements/

17 Platform products are a complex suite of investment products offered to consumers, including superannuation products. Often the costs and fees are opaque and difficult to understand. Source: https://www.rainmaker.com.au/platform_definitions

Further, in response to complaints that not all market participants were disclosing fees and costs appropriately, the report recommends that ASIC (the regulator) develop and implement a surveillance strategy on compliance. At present, superannuation funds are not required to provide fee and cost data to ASIC, nor does ASIC audit disclosures provided to members of superannuation funds and consumers of financial products.

Capacity of pension funds to gather meaningful and reliable fee information

Because the superannuation industry in Australia is very competitive – with members in DC public offer funds being able to change funds readily – trustees of funds are very alive to the need to reduce investment costs in order to maximise net risk adjusted returns, and therefore to negotiate fees downwards through their Investment Management Agreements with asset managers. According to Willis Towers Watson:

"Australia is at the vanguard of regulatory requirements in terms of what must be disclosed to fund members. This has led to not only searching for attractive assets but also to good fee outcomes, although fees in isolation aren't as important as the net outcome. If, for example, a fund is paying for active management, there's continual evaluation whether the managers are indeed active."[18]

Netherlands: fee transparency and reporting to regulators

Dutch pension funds comprise some of the largest funds in the world. There is an important amount of media and public attention around the investments and operations of pension funds generally. Dutch regulation requires pension funds to disclose standardised data points that are drawn from the template developed by the Federation of Dutch Pension Funds.

Legislative or regulatory requirements around fee disclosure

In spring 2011, the Dutch Financial Conduct Authority (AFM) published a report in which it concluded that the administrative costs of pension funds were much higher than reported in the annual accounts. The report exposed a variety of hidden costs, suggesting that the total costs paid by pension funds for asset management services were higher than assumed.[19]

These conclusions came as a surprise to many. Members of parliament demanded quick action and called for new legislation for cost transparency.

Nonetheless, Dutch pension funds were aware that their reported costs did not cover all costs. The annual accounts are written following Dutch Generally Accepted Accounting Principles (GAAP). Those rules prescribed that transaction costs and management fees should be deducted from returns. As a result, the profit and loss/income statements disclose net returns, instead of gross return and costs of asset management.

18 https://www.willistowerswatson.com/en/insights/2017/12/raising-the-bar
19 https://www.afm.nl/nl-nl/nieuws/2011/april/kosten-pensioenfondsen

In 2015 the Pension Act was changed and cost disclosure in the annual report became mandatory. Dutch law refers to the “Recommendations” that were developed by the Federation of Dutch funds in 2011 to prescribe which costs should be reported and how they should be calculated.

Under the Pension Act, pension funds are obliged to report the following key numbers:

- Costs related to pension management in euros per member. The number of members is the sum of active members and pensioners;
- Asset management costs as a percentage of the average asset under management;
- Transaction costs as a percentage of the average assets under management.

Voluntary initiatives around fee disclosure

In 2011, the Federation of the Dutch Pension Funds decided to write recommendations on cost transparency. The objective was to ensure that the Dutch government could draw from standards developed by the pension sector if it chose to enact legislation around mandatory fee disclosure. The threat of legislation that did not account for differences between pension funds convinced most pension fund managers that self-regulation would be beneficial.

The outcome was the design of a cost collection template upon which Dutch asset managers agreed. The asset managers fill out the template and send it to their pension fund clients. These costs are then reviewed by the pension funds before being used to calculate the overall asset management fees and transaction costs.

In spring 2016, the Federation launched an updated version of the recommendations. The most distinctive change from the 2011 model is the fact that the look through principle is applicable to transaction costs in fund of fund structures.

Impact of regulation, legislation or voluntary initiatives

The Netherlands has succeeded in implementing cost transparency in only a few years. Costs are on the agenda of the board of trustees and included in local legislation (Dutch GAAP and Dutch law).

The transparency outcomes for pension funds in the Netherlands are evolving. An overall decline of the percentage of pension investments in private equity and hedge funds has been witnessed. The Federation of Dutch Pension Funds feels the reason is found in several developments including cost transparency, the continued merger of pension funds along with an increase in internal management.

The following table shows a decline in the aggregated asset management costs and transactions over five years since the introduction of the collection and reporting system.

Development of average cost levels asset management in the Netherlands, in percentage of assets under management.

	Management fee	Transaction costs	Cost of asset management (A+B)
2012	0.53%	0.13%	0.66%
2013	0.54%	0.10%	0.64%
2014	0.52%	0.09%	0.61%
2015	0.47%	0.08%	0.55%
2016	0.46%	0.08%	0.54%

Source: Data collected by the Federation of the Dutch Pension funds, based on reports of LCP

Capacity of pension funds to gather meaningful and reliable fee information

Dutch pension funds benefit from a standardised cost collection template which all asset managers across asset classes report against. The Netherlands is thus an example of a jurisdiction where trustees can reliably compare the costs incurred to run a pension fund.

Transparency paradox

The better a pension fund is in collecting its asset management costs, the higher the reported costs will be. Therefore, the pension funds that are taking cost transparency seriously and making an effort to discuss cost levels with external asset managers are "exposed" for reporting relatively high level of costs. This is especially the case when starting with cost data collection.

However, this transparency paradox has not caused major issues in the Netherlands because of its semi-mandatory system. Plan members cannot leave the pension plan, and pension funds had several years to become fully compliant to the recommendations.

This is completely different in countries where participants may choose to move between pension funds and providers are competing to provide efficient costs and good returns.

United Kingdom: FCA-backed cost collection templates

The UK is catching up with Australia and the Netherlands in devising a cost collection process for its pension funds. The situation, as of May 2018, is as follows:

- Cost collection for DC workplace plans started in January 2018 and reporting of costs to plan members began in April 2018. A fine of up to GBP 50,000 will be levied against trustees if they fail to report. Shortcomings include the methodology along with the data supplied by fund managers and brokers, which is seen as unreliable.
- Cost collection for the Local Government Pension began in April 2018 for public market assets. September 2018 will see the inclusion of private markets and reporting in 2019/20. The plan already has a 'Code of Cost Transparency' for asset managers in the case study below.

- Consultation has begun on a cost reporting system for DB plans.
- The FCA's cost collection spreadsheet will be made available in autumn 2018 and fund managers are expected to fill it out if there is a request from trustees. This will encompass public and private market investments.

Total assets in these funds amount to nearly GBP 3 trillion and the UK has the second largest finance sector in the world.

Legislative or regulatory requirements around fee disclosure

The campaign for cost transparency in UK pension funds started in earnest after the banking and finance collapse in 2009. This extreme event triggered the age of modern austerity with significant cuts to public spending and, in particular, public service pension plans.

Lights were shone in the dark creases of the UK economy with a focus on DC plan providers, which culminated in a report by the Office of Fair Trading (OFT). This report was ground breaking as it revealed that competition alone cannot be relied upon to drive value for money for all savers in the DC workplace pension market.[20] This arises from the combination of two factors: 1) The complexity of the product, which makes it difficult to make the right choices about pensions, for individual savers and employers; 2) Employers, who have the responsibility of deciding which pension plan to choose for their employees, may often lack the capability or the incentive to assess value for money.

One of the key recommendations of the OFT report was improving the quality of information available on costs and charges.

The government response was to commit to a legislative programme for cost transparency in DC plans and a duty on trustees to deliver 'best value' for plan members. The duty of best value came first, which was problematic because it was hard to achieve without cost transparency.

Five years after the OFT report, legislation was created to compel the collection and reporting of costs and charges with legislation laid in March 2018.

In 2017 the UK FCA published its Asset Management Market Study. One of the key findings was that institutional investors find it difficult to get the necessary cost information to make effective assessments of their investment returns. These require a clear understanding of performance, risk and cost, so better value assessments are driven by more effective cost disclosure.

The proposed remedy was to convene the Institutional Disclosure Working Group (IDWG), a stakeholder working group with an independent Chair with the objective to "gain agreement on (cost) disclosure templates for asset management services provided to institutional investors".[21]

The IDWG work is designed to deliver pension funds with data which allows them to effectively manage and challenge costs as well as make better informed decisions on the composition and selection of investment products and managers so that they can compare charges between providers.

20 http://webarchive.nationalarchives.gov.uk/20131101172428/http://oft.gov.uk/shared_oft/market-studies/oft1505

21 https://www.fca.org.uk/publication/documents/summary-idwg-recommendations.pdf

The new cost collection standard templates will provide pension funds with access to significantly more detail on their costs than existing templates can provide. Due to be published in September 2018, the templates should be instrumental in helping pension funds gain easy access to this critical data.

Asset managers doing business in the UK will be encouraged to sign up to the new voluntary cost disclosure regime. Five templates for displaying asset management costs have been proposed and it has been recommended to the FCA that managers report costs using its templates. These include specific models for private equity and real assets, but so far stop short of calling for regulation. Instead, the IDWG said the FCA should only adopt regulations if managers fail to report voluntarily.

Voluntary initiatives around fee disclosure

UNISON, the public service union, had campaigned for over seven years to achieve transparency of costs for the members of the Local Government Pension Scheme. This was achieved in May 2017 with the announcement of a cost transparency process using a standardised cost collection template agreed with government and the Scheme Advisory Board (SAB).

The Scheme Advisory Board (SAB) works for the government department that oversees 89 pension funds with a combined asset value of GBP 280bn. A similar agreement was made with the LGPS funds in Scotland through their own SAB. The SAB will shortly be putting in place a cost analysis utility that will collect data from asset managers, check it for accuracy, create data for fund accounts and then provide analysis on fund and asset return performance.

The SAB has developed a voluntary approach by issuing a code of cost transparency.[22] Asset managers are required to sign up to the code to bid for fund contracts. The list of asset manager signatories is publicly available.[23]

The code requires that managers agree to the following:

- Within a period of 12 months of signing up to the Code, [the manager] will put in place the systems necessary to allow the completion and automatic submission of the Template to the Administering Authority;
- The Template(s) must be submitted automatically each year to each Administering Authority (if required by the Administering Authority) and to any independent third party appointed by the Board;
- The Templates will develop over time to encompass other more challenging areas of cost transparency and will remain flexible to enable changes to meet the rapidly developing market for investment products.

Impact of regulation, legislation or voluntary initiatives

The cost transparency process being implemented by the Local Government Pension Scheme will be the first time a pension system in the UK has systematically collected and analysed cost data. The primary aim is to make investment performance transparent and develop advice so that investment strategy can be changed to improve outcomes for the funds, their sponsors, their

22 http://www.lgpsboard.org/index.php/introduction-cost-transparency.

23 http://www.lgpsboard.org/index.php/manager-list

members and of course for the government who support the contributions of the employers and plan members through spending.

Capacity of pension funds to gather meaningful and reliable fee information

The capacity of funds to gather fee-related information will increase in coming years with the scaling up of cost collection by pension funds drawing from the Local Government Pension Scheme and the IDWG support around consistent and standardised disclosure of costs and charges to institutional investors. However, there remains a struggle to ensure the UK government backs up transparency with a statutory obligation on trustees to collect and publish the data.

United States: Disclosure of private investment fund fees by public pension plans is uneven

The US pension and asset management industry is the largest in the world. Federal and state legislators and regulatory agencies play a role in pension regulation. Private sector pension plans are subject to federal regulation under ERISA and the Internal Revenue Code, whereas public sector pension plans are subject to state law.

Legislative or regulatory requirements around fee disclosure

As of August 2018, some states have introduced legislation requiring public pension funds to disclose fee data for their private investment funds. The following table illustrates the status of these efforts.

State legislation on pension funds

State	Legislation status
California	A bill was signed into law in 2016 requiring public pension funds to collect from alternative asset managers and publicly disclose some fees and expenses. The legislation has been criticized as insufficient in that it only requires private equity managers to reveal the pro rata share of fees for each pension plan and does not require any standardized reporting template. The bill, which took effect January 1, 2017, applies to all new investments and all existing investments to which the pension fund makes a new capital commitment in 2017 or later. Because the bill requires annual disclosure, initial reports are expected to be publicly available in 2018.
Illinois	Legislation was introduced in 2016 that would require full disclosure of fees, including management fee waivers; legislation is pending and to date has not passed.
Alabama, Kentucky, New Jersey	Legislation was introduced but failed to pass.

Efforts to introduce and pass fee disclosure standards at the state level have been largely unsuccessful due to the lobbying efforts of finance industry groups such as the American Investment Council, which have worked vigorously to block transparency legislation.[24] In fact, in some cases finance industry groups have lobbied to pass legislation that specifically precludes public pension funds from disclosing fees information. For example, the venture capital industry developed legislation, passed in 2004, that deems cost information on the state pension fund's private equity, private debt and timber investments confidential.[25]

Voluntary initiatives around fee disclosure

In 2016, the Institutional Limited Partners Association (ILPA), a private trade group, introduced a fee reporting template that details fees, expenses and carried interest, but adoption of this template is voluntary.[26]

Impact of regulation, legislation or voluntary initiatives

As of April 2018, 33 state teacher and public employee pension funds have endorsed the template developed by ILPA, and far fewer require their general partners to use the template as well.

In some cases, enhanced transparency standards appear to have played a role in the larger debate within pension funds around the efficacy of investing in hedge funds, one of the most expensive types of investments for which the combination of astronomical fees and disappointing returns has generated scrutiny:

- In 2015, Rhode Island Treasurer Seth Magaziner introduced sweeping fee disclosure requirements for the state pension fund, arguably the strongest in the nation. The following year, the Employees Retirement System of Rhode Island announced that it would divest from more than half of its hedge fund portfolio.
- In 2015, the New York City Comptroller released an analysis quantifying fees paid on hedge fund and private equity investments. The following year, the New York City Employees' Retirement System (NYCERS) voted to fully divest from its USD 1.6 billion hedge fund portfolio.
- In 2015, the New Jersey State Investment Council agreed to disclose five years' worth of fees, bonuses and performance data for its investments. The following year, the pension fund voted to divest from half of its hedge fund portfolio and placed a fee cap of 1% management fee and 10% incentive fee on its remaining hedge fund investments.

Capacity of pension funds to gather meaningful and reliable fee information

US public pension funds essentially choose whether and how to collect and disclose investment fee data and, while a few public pension funds have voluntarily adopted rigorous transparency standards in recent years, the majority of U.S. public pension funds do not fully and reliably disclose the fees they pay to investment managers.

[24] https://www.nytimes.com/2016/07/03/business/private-equity-funds-balk-at-disclosure-and-public-risk-grows.html

[25] https://www.copera.org/sites/default/files/documents/5-20-04.pdf

[26] https://ilpa.org/reporting-template/

When public pension funds funds do receive complete fee data from asset managers, there is no standard way to verify their accuracy, and neither the asset managers nor the pension funds are under any obligation to make these data available to the public. As a result, much of the demand for fee transparency and the work to determine how much public pension funds are paying in fees has come from outside of the pension funds, particularly from labour unions whose members contribute to and depend on DB pension plans:

- In 2013, the American Federation of Federal, State, County and Municipal Employees (AFSCME) commissioned an investigation of the Rhode Island state pension fund that found that the pension fund *"secretly agreed to permit hedge fund managers to keep the state pension in the dark regarding how its assets are being invested."*[27]
- The American Federation of Teachers (AFT) produced reports in 2015 and 2017 estimating fees paid by public pension funds on their alternative investment portfolios and recommending full public disclosure of all fees.
- In 2015, the New York City Bureau of Asset Management (BAM) released a comprehensive study of the City's pension funds and found that high fees and underperformance cost the City's pension funds USD 2.5 billion over a decade.

27 https://www.forbes.com/sites/edwardsiedle/2013/10/18/rhode-island-public-pension-reform-wall-streets-license-to-steal/#37e8ba4f7659

Appendix A: Cost Transparency Comparative Table (by country)

Country (or Region)	**Type of political/ regulatory system**	**Method of cost disclosure**	**Types of costs disclosed**	**Outcomes**
Australia	Centralised: • ASIC is the national regulator of the financial system and pension system	• Funds may use the fee and cost mapping tables developed by an industry working group to disclose information in their public reports • There is no collection of information on fees and costs by the regulator/ government, although a July 2018 ASIC-commissioned report recommends that ASIC develop and implement a surveillance strategy on compliance with fee disclosure	• Pension management and administration costs • Asset management costs • Performance fees • Transaction costs	• There is a transparent market for pension plan members – costs and fund performance is visible. The regulator does not audit cost and fee disclosures. The regulator (ASIC) can ask funds for explanations if it appears to be an outlier.

Appendix A: Cost Transparency Comparative Table (by country) continued

Country (or Region)	Type of political/ regulatory system	Method of cost disclosure	Types of costs disclosed	Outcomes
Netherlands	Centralised: The Dutch National Bank regulates Dutch pension funds	• Funds must use the cost collection template (developed by the pension sector) that is mandated by the regulator/government – information is aggregated and published by the Dutch National Bank • Cost data is also published in fund annual reports	• Pension administration costs • Asset management costs • Transaction costs • Performance fees (not mandatory to report to government, disclosed by certain funds)	• Aggregate asset management and transaction costs have declined year on year since the introduction of the reporting and collection regime.[28]
USA	Decentralised: • The SEC regulates the financial system • Private sector pension plans disclose fees paid to their investment advisors • Each US State regulates its public sector pension plans, disclosure varies by state	• SEC Form ADV reporting requirements for private investment funds have only recently been adopted • In 2016, the ILPA, a private trade group, introduced a voluntary fee reporting template for alternative investments (e.g.: private equity limited/ general partners, hedge funds)	• No single, standardised template is used	Without reliable information, public pension plan trustees cannot accurately compare investment costs in private investment funds or easily measure their investment performance.

[28] Data collected by the Federation of the Dutch Pension funds, based on reports of LCP

Appendix A: Cost Transparency Comparative Table (by country) continued

Country (or Region)	Type of political/ regulatory system	Method of cost disclosure	Types of costs disclosed	Outcomes
UK	Centralised: • Workplace pensions in the UK are organised under a) the Department for Work and Pensions and b) the Department for Housing, Communities and Local Government • The Financial Conduct Authority regulates the financial services and 'contract based workplace pensions' which are directly provided by asset managers and insurance companies	• The FCA's Institutional Disclosure Working Group will publish five comprehensive cost reporting templates in September 2018 • It is not expected that there will be a mandatory submission of data by funds to the government/regulator		The Local Government Funds Scheme Advisory Board will be checking data for accuracy, analysing data for asset class performance and for aggregate performance as of 2019.
European Union	• Directives are adopted at the European Union and subsequently adopted by Member States in national legislation.	• The Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment plans and derivatives), and the venues where those instruments are traded. These costs must be reported to clients.		• Directive aims to protect investors and ensure that financial markets operate in the fairest and most transparent way possible. Its drawbacks are the fact it does not cover all asset classes.

Appendix B
Overview of cost types

The further breakdown of cost types and associated definitions in the table below can be an aid to securing uniformity; the costs set in this table were uncovered by the Pension Federation in the Netherlands. Pension funds may find it helpful when verifying whether they have identified the full range of administrative costs.

The table is not intended as a communication tool or collection template.
The table is divided into three main costs categories:

- Pension management costs
- Asset management costs
- Transaction costs

	Cost type	Costs	Definition
Pension management costs	Administration	Collections	Activities on behalf of premium collection.
		Payments	Pension payments.
		Entitlement administration	Administration of accrued pension rights, value transfers.
	Communication	Participant communication	Activities relating to legal commitments and other pension communication.
		Employer communication	Communication with associated employers / sponsors.
	Oversight & advice	External auditor	Remuneration of auditor.
		External actuary	Remuneration of certifying actuary.
		Other advice	Financial, legal, or actuarial advice. Advice relating specifically to asset management is not included here.
	General costs	Administration Board	Administration of Board and committee fees.
		Administration Office	Costs for an administrative office (if any).
		Supervisory costs	AFM and DNB expenses.
		Other general costs	Memberships, conference attendance.

Appendix B: Overview of cost types continued

	Cost type	Costs	Definition
Asset management costs	Fiduciary fees	Remuneration strategic advice	Charges for investment strategy, in conjunction with an (ALM) study.
		Risk management fee	Advice regarding risk management, balance sheet management, and potentially execution thereof; not pertaining to specific products such as mandates or investment funds.
		Remuneration for fiduciary advice	Charges for the compilation of the portfolio, dynamic portfolio management, and the selection, implementation, and monitoring of asset managers.
	Manager's base fees	Asset management fee	Remuneration to external asset manager for management of (discretionary) portfolios. Services covered by the asset management fee can include strategic inputs, investment advice, the management of assets and liabilities, the appointment of third party service providers, and reporting. The composition of the fee may vary per manager. The remuneration is largely based on the asset levels invested in a specific investment fund or discretionary portfolio.
		Fund management fee or Asset servicing fee	Remuneration paid to the external asset manager for the management of the investment funds. Services covered by the fund management fee include the day-to-day management of investment funds and portfolios, the administration thereof, reporting and communication with investors. The composition of the fee may vary per manager.
		Internal management costs	All expenses incurred for the internal management of assets. Among other things, this relates to personnel costs allocated to the asset management and facility costs of the internal apparatus.
	Custody & depositary fees	Custody fee	Fee charged by the custodian (the custodial company) for safekeeping of securities in a fund, payable by the fund.
		Depositary fee	In accordance with AIFMD appointed depositary. Fees for additional services by this depositary, next to safekeeping of securities.

Appendix B: Overview of cost types continued

	Cost type	Costs	Definition
Asset management costs *continued*	Other asset management costs	Incorporation expenses	Fees incurred for the establishment of funds or partnerships (entity in which is invested). Usually part of asset or fund management costs, although individual assessment of the fees is necessary if these are not transaction related.
		Auditing fees	Costs incurred for the auditing of financial statements or the issuance of a different type of assurance. The auditing expenses of the pension fund are not reported here; the auditing costs of the investments are reported.
		Administration costs	Remuneration paid to an administrator for the administration of assets and liabilities in the fund, and for other bookkeeping and reporting activities. Execution of administration of the investments may be outsourced to specialist companies by the pension fund and/or asset manager.
		Fiscal and legal consultancy fees	Fees for fiscal and legal advice not related to transactions.
		Other consultancy fees	Fees for services by external advisors that are unrelated to transactions.
		Bank fees	Fees charged by the bank for their services. This includes financing fees.
		General expense allocation	Regarding the allocation of general costs to asset management. Fees in connection with reimbursement to committees (audit committee, accountability body, investment committee), Board members, etc. Fees associated with the oversight of supervisory (internal) bodies or external organisations (such as AFM and DNB) relating to asset management.
		Other costs	Other costs that do not fall under the “other cost” categories, or are categorized as such. Also may include costs of small expenditures, such as petty cash. Other Fees and Fund Level Expenses of real estate funds are included as well.
		Lending compensation	Compensation for the implementation of the securities lending activities to lending agent/ custodian, and/or agent/asset manager.
		Technology costs	Expenses relating to the purchase and maintenance (or in-house development) of hardware and/or software (such as trading platform, risk management system).
		Market data costs	Costs for obtaining market data, or subscription fees for a databank.

	Cost type	Costs	Definition
Asset management costs *continued*	Other asset management costs *continued*	Research costs	Fees for research data, including attendance at research conferences.
		Management and/or secretarial fees	Management costs paid to members of the Board, including costs for secretarial support (applicable to consolidated investment management entities).
		Selection and monitoring costs	Costs for selection of service providers, as well as the supervision thereof.
		Appraisal costs	Fees for the estimation of investment objects by appraisers (primarily applicable to investments in property and infrastructure); not transaction-related.
	Performance fees		The remuneration a service provider receives for outperformance. Carried interest provisions, such as those that apply to private equity, are also included.
Transaction costs	Entry and exit fees charged by investment funds		Amounts charged to investors at the entry into or withdrawal from a fund (allocation or withdrawal of monies to an investment fund), in favour of the fund, the manager, and/or the already existing investors. The fee percentage is periodically established per fund.
	Fees arising from the purchase and sale of investments	Broker fees	The broker's fees for processing the transaction.
		Spread costs	Difference between the bid price and ask price with respect to the broker's various costs and profit margins. The fees are defined as half of the spread.
		Registration fees	Fees for processing and registering the transactions in the asset manager's administration.
		Transactional taxation	Tax levied over transactions of financial instruments. This includes Stamp Duty and the Financial Transaction Tax (FTT / dependent upon implementation: tax on all transactions in financial instruments that are traded between parties, in which at least one party is based inside the EU).

	Cost type	Costs	Definition
Transaction costs *continued*	Acquisition costs	Broken Deal expenses	An extensive deal process does not always lead to a transaction. The expenses incurred are nonetheless reported as transaction costs.
		Appraisal fees	Appraiser's fees for the assessment / implementation of valuations of different investment objectives which must be estimated against market value on transaction date.
		Auditing fees	Audit fees for financial administration research and annual accounts, with the objective of ascertaining the existence of any particular focus points relevant to the deal.
		Fiscal and legal consultancy fees	Tax consultancy fees for due diligence, with a focus on possible fiscal considerations attaching to the potential transaction. Legal consultancy fees for assessment of structure, as well as drafting contracts. This also includes the Acquisition and Disposition Fee for property.
		Other acquisition costs	Other consultancy fees, such as the expenses for technical advisors for regulation, traffic flow, wind studies, insurance, pensions, and (in most cases) a financial advisor working on a success-fee basis.
		Bank fees	Fees charged by banks for services relating to transactions or deals. This also includes the Financing Fee for property deals.
		Participation fee	Fees charged by the bank for participation in the underwriting of a loan.
		Bank/Broker fees	Charges for processing the transaction via bank or broker.

DC plan costs

The following costs can expected to be found in DC plans

- Set-up fees
- Plan-level entry fees; both on entry into, or on transferring a pre-existing pot into a plan
- Plan-level exit charges
- Fees for non-member-initiated switching of funds
- Fees paid to governance bodies, e.g. trustees, IGCs [in full] and others
- Governance charges and expenses, e.g. trustee insurance

- Fund or investment management fee, payments to investment consultants and administrators, including underlying and separate in-house fund managers, performance fees, etc.
- On-going charges for underlying funds in investment portfolio, e.g. fee for holding units in a UCITS [in full] fund
- On-going costs for running of plan, e.g. IT, office and staffing costs, data management and record keeping
- Registration and regulatory costs and fees
- Payments to providers of professional services and other third parties or fees for related services, e.g. administrators, advisers, actuaries, lawyers, auditors, audit and legal fees for investment, accounting fees, valuation services
- Depositary fees and fees to the custody bank
- Banking fees
- Costs of member communication services, e.g. statement costs, website, printing/ posting accounts
- Costs of capital requirements
- Unrecoverable VAT
- Payments to shareholder service providers
- Platform fees
- [Sales] commission
- Brokerage commission and fees
- Soft commission services included in brokerage fees, e.g. research costs
- Transaction taxes, e.g. stamp duty and non-reclaimable withholding taxes on dividends
- Spreads, e.g. bid-offer on bonds, FX (and associated costs such as commission)
- Other charges embedded in the transaction price, e.g. payments incurred through financial derivative instruments
- Entry fees, other initial charges and exit fees for investment in underlying funds
- Deductions of expenses or fees from profits such that they are not shared equally with members, e.g. in relation to activities such as stock lending, interest income, foreign currency exchange

Appendix C
Jargon buster

This section will help readers explain the key jargon language used in investing and pension funds.

Administration & Processing Cost:
Any costs are associated with the monitoring or processing of member accounts or communications. This includes internal and external communications, as well as any systems or infrastructure used in order to manage the process.

Advisory and Control Costs:
The costs associated with the support and advisory functions required in the running of the pension plan, including all fees paid to external parties (not including those relating to investment activities).

Appraisal Fees:
The cost of paying a qualified appraiser to estimate the market value of a property or investment.

Auditing Fees:
Costs charged to a fund for the audit of their financial records and preparation of any tax documents.

Basis Points:
Often an investor's assets are so large that measuring a portion of the assets in percent is not productive. A basis point is 1/100th of a percent. When fees are measured in basis points, this would mean that 10 basis point charge on GBP 500m of assets would be a cost of GBP 50,000.

Broken Deal Expenses:
The costs received from and paid to counterparties upon termination when a fund's acquisition is unsuccessful.

Custodian fees:
The amount you pay for your custodian to fulfil their safekeeping role. The other "Securities Services" that your Custodian provides to your plan might be incorporated into a bundled price. Therefore, it is worth separating out the costs of safekeeping from those of services such as fund accounting, treasury services and tax reclaim.

Estate Agent Fees:
If an investment is made directly into property holdings there is likely to be estate agent fees incurred.

Execution Commission:
The commission paid for the execution of an equity, fixed income or commodity transaction. For example, the commission paid to a broker for executing and equity trade.

Executive Costs:
All executive and committee costs incurred as part of the day-to-day management and governance of the plan. These costs include everything related to executive services, including salaries and expenses, memberships to organisations or publications, as well as any costs associated with conference attendance.

Fiduciary Management Costs:
Some plans chose to outsource the investment process to a Fiduciary Manager. The manager potentially takes over a number of activities, each of which has an individual cost that is passed on to the plan. These activities include: Proposals for strategic investment policy, including: Advice on risk management and balance sheet; Proposals for portfolio composition and implementation; Performance Measurement; Communication and reporting to the trustee board; Selection and monitoring of external managers; Outsourced custody and securities services

Fiscal & Legal Consultancy Fees:
A fund might require legal services, for example if it wants to amend its set-up. These costs may be indirectly passed on to the client.

Investment Advisory Costs:
The amount you pay your investment consultant for all services they provide. This not only includes consulting but also functions such as manager research, for which you may have a separate fee structure in place.

Investment Management Costs:
The costs associated with any activity relating to the management and monitoring of the plan's investments. This is the total for all investment practice, including all asset manager costs, investment service providers, investment advice, etc.

Investment Manager – Manager Costs:
The amount your plan is invoiced by your asset managers for management fees, such as the Annual Management Charge. This is typically a contractually agreed amount expressed in basis points of the size of the mandate.

Investment Manager – Performance Costs:
The amount you are invoiced by your plan's asset managers for their performance. This sits on top of the "AMC" and is the amount you pay the fund manager for positive results. This is usually relative to the fund's profits.

Pension Management Costs:
The expenses involved with managing and administering the pension fund itself. These are incurred as part of the day-to-day running of the plan and are not related to investment activity.

Performance fees:
An additional variable performance fee when the asset manager has generated positive returns.

Placement Fees: The fees charged when client funds are placed into property, infrastructure, hedge or private equity funds. This is usually done by a bank or broker who will charge for this service.

Registration Fee:
Any costs or charges that occur when registering a new security or investment.

Rent:
The cost of renting property that is used by the plan. This could include renting space from the sponsor for the pension plan.

Research Commission:
Commission paid in return for research, analytics, trading technology etc. that is used by the investment manager for the mandate. For example, the execution fee on an investment may be GBP 1 but the manager might pay an extra GBP 1 to cover the cost of research provided alongside execution.

Stamp Duty/ Financial Transaction Tax:
Governments often change taxes or fees on certain investments or transactions. For example, the UK government levies stamp duty on all UK equity purchases.

Total Cost of Production (TCP):
The sum of all costs incurred in running a pension plan or investment vehicle. This should include direct and indirect costs, administrative as well as investment costs, to establish a comprehensive "total." The TCP aids purchasing decisions by considering both the purchasing price and ongoing operating charges.

Transaction Costs:
These are any expenses incurred in the process of buying, selling, lending or borrowing financial instruments. Each financial instrument will have some costs that are particular to investing in that area. However, many of these costs apply across all asset classes or financial instruments.

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We hope that this guide has empowered trade unions and pension trustees around the world to seek better transparency on the fees paid when the retirement savings of workers are invested.

The CWC working group on cost transparency can provide tips and guidance to any party interested in undertaking this exercise.

Please contact the **CWC** for help and assistance on pension cost transparency at: **info@workerscapital.org**

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